

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 7092

BILL NUMBER: HB 1889

DATE PREPARED: Jan 10, 2001

BILL AMENDED:

SUBJECT: Deduction for military retirees and survivors.

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FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: This bill deletes the requirement that a person must be at least 60 years of age in order to claim the state income tax deduction for the first \$2,000 of income from a military pension or survivor's benefits.

Effective Date: January 1, 2001 (retroactive).

Explanation of State Expenditures: The Department of State Revenue (DOR) will incur some administrative expenses related to the revision of tax forms, instructions, and computer programs to incorporate this change. These expenses could be absorbed given the DOR's existing budget and resources.

Explanation of State Revenues: *The revenue loss beginning in FY 2002 associated with this bill is expected to be minimal.*

This bill allows all recipients of military pension income and survivor's's benefits to claim an Adjusted Gross Income (AGI) Tax deduction of up to \$2,000 (current law provides that the taxpayer must be at least sixty years old). According to income tax statistics from the DOR, approximately 35,000 taxpayers claimed the military service deduction in 1998. The Department of Defense reports that there are almost 17,000 Indiana residents who were serving on active duty as of October 2000. Based on these figures, as many as 18,000 of the remaining taxpayers that claimed this deduction may be retirees. It is not known how many Indiana residents under the age of sixty receive military retirement or survivor's benefits, but the number is not expected to be great. For each additional taxpayer who would be eligible for the deduction, the state revenue loss would be a maximum of \$68 (\$2,000 multiplied by the 3.4% AGI Tax rate).

This deduction would be effective for tax years beginning January 1, 2001. Individual Adjusted Gross Income Tax revenue is deposited in the General Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues: Counties imposing local option income taxes will experience a minimal reduction in their revenue from these taxes.

State Agencies Affected: Department of State Revenue.

Information Sources: DOR; Department of Defense: Manpower Data Center, Mike Dove, (831) 583-2400.